Registered Retirement Income Funds

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This leaflet is only a guide. For official purposes, please refer to the Income Tax Act.

Copies of this leaflet are available free of charge from district taxation offices.

If you have a registered retirement savings plan (RRSP), you should be aware of the number of ways in which you can use your RRSP funds. One of these is called a registered retirement income fund (RRIF).

RRSP benefits

The main advantage offered by an RRSP is that it allows you to invest money for your retirement and defer tax on the amount contributed.

The Income Tax Act requires that your RRSP must be matured not earlier than your 60th birthday and not later than the end of the year in which you reach age 71. If you cash it in before your 60th birthday, you must pay tax on the full amount in the plan when you do so. However, where the annuitant or the annuitant's spouse receives a disability pension under the Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) or where the spouse of the annuitant receives a survivors pension under the CPP or QPP, an RRSP may mature before the annuitant's 60th birthday. Also, if you do not purchase an annuity or RRIF by the end of the year you turn 71, you must pay tax on the full amount in the plan.

If you do not wish to include in income the benefits out of a matured registered retirement savings plan in the year it matures, you may use your RRSP funds to acquire income for retirement which may be received as either

- an annuity for life;
- a fixed-term annuity providing benefits until age 90, or
- payments under a registered retirement income fund (RRIF).

Or you may take your total RRSP funds in cash, as long as you remember that a cash withdrawal is taxable.

You may apply all of your RRSP funds to a single option listed above, or to a combination of several options. For example, you might choose to transfer part of the funds to an RRIF and take the balance in cash, or transfer part of the funds to an RRIF and use the rest to acquire both a fixed-term and a life annuity.

Life annuity and fixed-term annuity

If you decide to use your RRSP funds to acquire either a life annuity or a fixed-term annuity, each of these will pay out a set amount of cash yearly.

The life annuity payment is often higher, however, because it is based on average life expectancy, which is usually a shorter time period than the term of the fixed-term annuity. Payments from the fixed-term annuity are based on its set term, which goes from the date of purchase until age 90. If your spouse is younger than you are, you have the choice of basing

the term on your spouse's age so that benefits will be paid out for a longer period of time.

Registered retirement income fund

An RRIF is a type of plan available from life insurance companies, trust companies, Canadian investment companies approved by Governor-in-Council, banks and credit unions, referred to in this text as "carriers." It is designed to provide increasing cash benefits each year commencing the first complete calendar year after the arrangement was entered into until age 90, thus combating the effects of inflation and supplementing your income in the lean retirement years.

How payments work

The amount payable from an RRIF is determined, within certain limits, at the annuitant's option based upon the annuitant's own requirements.

An assumption is made that the fair market value of the property in the RRIF at the beginning of the particular year is used to purchase a single premium annuity contract, with equal annual payments to the annuitant for the remaining term of the RRIF at an interest rate selected by the annuitant not exceeding six per cent. The annual payment calculated in this way becomes the amount to be paid out of the RRIF for the particular year. This calculation would be repeated annually to select the amount to be paid out of the RRIF.

Limited to one RRIF

Although you may hold more than one RRSP at a time, you can have only one RRIF. You may, however, transfer this fund from one carrier to another if you wish. In that case, you must arrange to have the funds you want transferred paid by the first carrier directly to the new one, because if the funds are paid to you, they become subject to income tax.

Term of the RRIF

The term of the RRIF goes from the date of purchase until the end of the year in which you reach the age of 90. Like the fixed-term annuity, the term of the RRIF may be based on your spouse's age if your spouse is younger than you are. Again, this means benefits will be paid out for a longer period of time.

If your spouse is younger than you are, and you decide to base the term of your RRIF on your spouse's age, you must make this decision between the time you make arrangements with the carrier and before the next January 1, the first day of the first complete calendar year in which payments begin.

Death of RRIF planholder

Under an RRIF, one spouse can name the other spouse as beneficiary of the plan. When the planholder dies, payments will continue to be made to the surviving spouse until the term of the RRIF expires.

If any other beneficiary is named, the fair market value of the RRIF must be declared in the deceased's date-of-death tax return and tax paid on it accordingly. Where there is no surviving spouse, funds (within certain limits) passing to a dependent child or grandchild of the planholder would be included in the income of that child or grandchild and not in the income of the deceased planholder.

Self-administered RRIF

Normally, when you purchase an RRIF, the carrier decides where and how your money is invested. If you prefer to make the investment decisions yourself, you may choose what is known as a self-administered RRIF. This must be handled through a government-approved carrier. You make the investment decisions, while the carrier looks after the administrative details of the plan.

If you opt for a self-administered RRIF, be sure to check whether your chosen investments are qualified (as defined in the Income Tax Act). A non-qualified investment would have to be included in income for the year, and tax paid on it.

Planning investments for retirement income

If you need further information on how to invest proceeds from an RRSP, contact an authorized carrier. For more details on the income tax implications of your investment decision, obtain Information Circular 78-18R2, "Registered Retirement Income Funds," available from your district office.

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